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TAGS: PGOV PREL PREF PTER MASS MCAP CO
SUBJECT: ECONOMIC SLOWDOWN PROMPTS CUTS TO COLOMBIAN
DEFENSE BUDGET

REF: A. BOGOTA 0007
¶B. 2008 BOGOTA 4577

Classified By: Political Counselor John Creamer
Reasons 1.4 (b and d)

SUMMARY

¶1. (C) Summary. Reacting to a projected economic slowdown in 2009, the Government of Colombia (GOC) plans to cut the national budget by $1.4 billion, including a proposed $190 million reduction to the defense budget. The proposal would reduce future expenditures on ammunition, rifles, communications equipment, infrastructure projects, fuel, food, and uniforms. The proposed cuts would not directly affect defense expenditures funded by the wealth tax, which is expected to raise $3.7 billion between 2007-2011. Still, the GOC's ability to sustain current levels of defense spending after 2011, when the wealth tax expires, is in doubt. End summary.

ECONOMIC SLOWDOWN PROMPTS CUTS

¶2. (C) Reacting to a projected economic slowdown in 2009 (see reftel A), the Colombian National Planning Department and the Ministry of Finance have proposed $1.4 billion in cuts to the 2009 national budget of $67 billion (figures assume an exchange rate of 2100 pesos to the dollar). The proposal calls for trimming the $9 billion national defense budget by roughly $190 million (400 million pesos). Defense spending accounts for roughly 14% of the total Colombian budget, and the Ministry of Defense (MOD) is being asked to absorb a commensurate amount (approximately 14%) of the total budget cut of $1.4 billion. The cuts could be reduced in the event that revenues do not decline as much as expected in 2009 due to the economic slowdown. Still, given the grim current climate and the budget's assumption of a 3% growth rate in 2009, most analysts believe that revenue collection will be even worse than currently projected.

MOD TRIES TO MINIMIZE THE PAIN

¶3. (C) Half of the $190 million proposed defense cuts fall under investment, which is controlled by the National Planning Department, and would result in reduced expenditures on ammunition, rifles, communications equipment, and infrastructure. The other half would come out of the operational budget, which is controlled by the Ministry of Finance, and would result in reduced expenditures on fuel,

rations, and uniforms. The Director of Planning and Budget at the MOD, Yaneth Giha, told us the Ministry is determined not to let these cuts affect the nationalization of Plan Colombia, including the GOC's commitment to take on fuel costs. She said that the MOD will also not let the cuts affect the tempo of military operations -- they would prefer to instead postpone expensive infrastructure projects, such as planned naval bases, which she said the Colombian military can do without for now.

¶4. (C) The MOD is going over the 2009 budget line by line with the National Planning Department and the Ministry of Finance in an effort to identify non-critical areas that can be cut, such as certain pension costs that are not obligatory. Since approximately 90% of the defense budget corresponds to fixed costs, the focus has been on the 10% that is discretionary. Giha said that the cuts are painful but show the GOC's prudent financial management. She said some other government ministries feel that the MOD is getting off too lightly.

WEALTH TAX EXPENDITURES UNTOUCHED

¶5. (C) The proposed cuts do not directly affect the wealth tax (impuesto al patrimonio), which is projected to raise $3.7 billion from 2007-2011 (see reftel B). The wealth tax revenues raised are included in the total defense budgets for 2007-2011. Consequently, the manpower, equipment and intelligence upgrades procured utilizing wealth tax funds will not be affected. Giha noted for example that the Kfir modernization project will proceed as planned, and that an additional 10,000 police will be hired over the next two

years using wealth tax funds. Giha said that President Uribe's instructions were that wealth tax funds were "off limits." However, since the wealth tax is levied as a 1.2% tax on certain liquid assets, the slowing economy will likely reduce future revenue collections.

POST-2011 DEFENSE BUDGET IN DOUBT

¶6. (C) The MOD is currently planning its budget for 2010, 2011, 2012 and 2013. Officials believe that they can sustain current operations through 2010, when President Uribe's current term expires, but not past 2011. The GOC is gaming several post-2011 scenarios, including financing future operations through a public war debt. Giha predicted that defense spending as a percentage of GDP would remain around current levels (approximately 5.7%) given that most of the defense costs are allocated to fixed costs such as salaries, which cannot be reduced quickly. Still MOD officials are hopeful that the terrorist and criminal organizations will be weakened by 2011 to the point where fewer resources will be required to combat them.
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